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ABSTRACT

This paper presents findings of a study that examined the New Mexico school-finance formula. Specifically, the study assessed the adequacy of the enrollment growth factor (EGF) and its differential impact on New Mexico school districts that grow at different rates. An EGF refers to some type of weighting in a state's basic aid formula to reflect higher operating costs associated with increased student enrollment in a school district. The study examined the changes in enrollment patterns between 1986-87 and 1993-94 and identified 5 types of district growth: fast, moderate, down-up, mixed, declining, and others. It also examined changes in district teacher-pupil ratios by growth group and size and changes in districts' actual spending levels. Data indicate that growth funds had little to do with changes in the pupil-teacher ratios. It was also hard to determine what impact, if any, growth funds had and what need, if any, there is for such funds to be provided. A conclusion is that growth funds do not serve any real purpose as they are currently allocated. If continued, they should be targeted more carefully in the future, taking into consideration the individual characteristics of school districts other than yearly changes in enrollment. It is concluded that there is no research to support or refute higher operating costs for school districts with rapidly growing enrollments. Seven tables and two figures are included. A summary table compares the enrollment-growth finance formulas of other states. (LMI)

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**FINAL REPORT ON THE
STUDY OF THE ENROLLMENT GROWTH FACTOR**

**PRESENTED TO THE LEGISLATIVE EDUCATION STUDY COMMITTEE
AND THE EDUCATION COMMITTEE OF THE
NEW MEXICO LEGISLATURE**

NOVEMBER 15, 1994

PREPARED BY

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INTRODUCTION

In June of 1994 the Legislative Education Study Committee (LESC) requested the Education Commission of the States (ECS) and the National Conference of State Legislatures (NCSL) to appear before the Education Committee and make presentations on national trends in school finance and education reform. Under a grant from the Andrew W. Mellon foundation, NCSL and ECS retained the services of a nationally known expert on school finance, John Augenblick, to make the presentation with Mary Fulton, Policy Analyst, ECS and Terry Whitney, Senior Policy Specialist, NCSL.

Following the June meeting of the committee, NCSL submitted a proposal to the director of the LESC, Dr. Placido Garcia, responding to House Memorial 51 directing the LESC to undertake a study of the New Mexico school finance formula enrollment growth factor.

"NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF THE STATE OF NEW MEXICO that it request the legislative education study committee to study the adequacy of the enrollment growth factor and its differing impact on school districts that grow at different rates..." (The Legislature of the State of New Mexico, 41st Legislature, 2nd Session, House Memorial 51).

The report is divided into five sections. Following the introduction/summary is the narrative for the analysis that was conducted. The third section is the literature review. Section four presents school district data and tables based on U.S. Department of Education enrollment projections, with emphasis on the western region of the United States. Section five is a summary table for comparisons to other state finance formulas that also have enrollment growth factors.

SUMMARY

Our understanding of the growth factor is that the formula provides for additional funding for school districts with equal to or greater than 1% growth. A marginal cost of 0.5 times the unit value is then calculated and the growth money becomes part of the calculation of the unit cost. It is also our understanding that the state uses current year enrollments to distribute state aid, which differs markedly from other states which use a prior year enrollment figure. That means that districts actually receive state aid based on the average cost of serving all students who are enrolled in the current year.

This raises some basic questions about the role of growth funds. Growth funds provide money above and beyond the average cost and it is not clear from our research how such funds are being used. The data we reviewed does not indicate what specifically is accomplished by the additional dollars. For example, do these funds contribute to reductions in class size or do they offset purchases of additional supplies, textbooks or equipment?

Our conclusion is that there may be a role for growth funds but that it may be appropriate to look at growth funds in light of the whole budget process. Our understanding of New Mexico's school budgeting process is that it is incremental, based on total funds and changes that take place year-to-year.

The unit cost figure which is the basis of distributing state aid is calculated in any given year on the basis of the total state aid from the prior year and any additions caused by new state requirements/mandates or additional cost pressures that the state chooses to recognize. The result of this is that growth funds are a component in the determination of the unit cost figure.

Our sense is that the state should start its budget process using a prior year's unit cost and adjust that for changing cost pressures and new requirements and multiply that figure by the current year enrollment to determine the state's obligation in the current year. That would be a simpler and more straight forward system to account for changing costs including those associated with enrollment growth.

DATA ANALYSIS SECTION

The purpose of this section is to describe the approaches we used in, and the results we obtained from, analyzing the distribution of state aid for enrollment growth. State aid for growth, first distributed in 1990-91, accounts for only a small portion of all state aid for schools. Between 1990-91 and 1993-94, the state provided a total of \$22.1 million; in 1993-94, \$5.8 million was allocated for growth out of a total of \$1.1 billion in state aid to school districts.

Certain basic characteristics of the distribution of state aid for enrollment growth are shown in Table 1. The number of districts receiving growth aid has increased steadily since 1990-91 from 40 districts to 62 districts or from less than half of all districts to about 70 percent of all districts. Districts that receive growth aid enroll about 75 percent of all pupils in the state. For districts that receive such funds, the average amount of state aid was \$13.90 per pupil (averaged across all pupils in the receiving districts) in 1990-91; that amount grew to \$32.13 per pupil in 1991-92 but it declined steadily to \$24.98 in 1993-94. If growth aid were averaged across all pupils, the average amount of state aid was \$10.76 in 1990-91, rising to \$23.29 in 1991-92, and declining to \$18.85 in 1993-94.

Although the state distributes enrollment growth aid on an annual basis, comparing the current year enrollment to the previous year, school finance literature suggests that the fiscal impacts of enrollment change are felt over several years. In order to better understand the need for state aid, we decided to categorize school districts based on the pattern of enrollment change over several years. Examining the changes in enrollment that took place between 1986-87 and 1993-94, we identified five primary patterns, which can be described as follows:

1. fast growth -- districts that had sustained increases in enrollment through the time period, making them eligible for enrollment growth funds for most years in which they were available;
2. moderate growth -- districts that typically had stable or increasing enrollments through the period, although not quite as high a rate as districts in the first group;
3. down-up -- districts that started the period with stable or declining enrollments but had increasing enrollments toward the end of the period, making it more likely that they would be eligible for growth aid more recently;
4. mixed-- districts with no particular pattern of enrollment change over time but having increases and decreases at different points in the period;
5. declining -- districts that generally faced decreasing enrollments throughout the period with little, if any, enrollment growth and
6. others -- districts that displayed unusual patterns, making them difficult to classify due to large shifts in one or both directions.

The figures in Table 2 display some of the characteristics of the districts in these groups. For example, 21 of the state's 88 districts (prior to the formation of the Rio Rancho district) can be characterized as having had fast growth between 1986-87 and 1993-94. Those districts enrolled about a quarter of all the pupils in the state, increased their enrollment levels by an average of 17.4 percent in six years, about twice the statewide average, and were a little more than twice as large as the median size district. While there are only 13 districts that are classified as having moderate growth, they enroll more than half of all pupils in the state and they tend to be very large. Districts that started the period with declining enrollment but ended the with increasing enrollments, had an overall growth of 5.9 percent and were average size. There were 30 districts that had a mixed pattern of enrollment change although, on average, they had positive growth over the period; they tended to be small districts, about half the size of the statewide median. There were only six districts with a pattern of consistent decline; over the period their enrollments decreased by 8.1 percent and they tended to be very small.

While there appears to be some relationship between the pattern of enrollment change and the size of districts (districts with fast growth tend to be large while declining districts tend to be

small), there are relatively large and relatively small districts in most growth groups. Since growth can have a different impact on districts of different size (for example, a two percent increase in enrollment in a district with 2,000 pupils may require expenditures for more space, more personnel, and more ancillary support while the same proportion of growth in a 200 pupil district may be able to be absorbed without the need for supplemental expenditures), we felt that it was appropriate to further distinguish between districts that were larger than the median and smaller than the median within the growth groups. The figures in Table 3 indicate the number of districts and the membership of those districts, that received state aid for enrollment growth between 1990-91 and 1993-94 with districts grouped by size within growth groups. Over time, the distribution of districts in terms of size has evened out; where most districts that received growth aid were above the statewide median size in 1990-91, precisely half of the districts receiving such aid 1993-94 were of that relative size. And while the distribution of districts has remained fairly consistent over time in most cases, smaller districts with recent growth, in both the "down-up" and "mixed" groups, have become recipients. However, the vast majority of pupils who benefit from growth aid are enrolled in relatively large school districts.

The vast majority of growth aid dollars go to relatively large districts, as shown in Table 4. In 1993-94, \$5.1 million of the \$5.8 million in growth aid was allocated to the 31 districts that had a membership larger than 800 units while \$.7 million went to the 31 districts with less than 800 units. However, smaller districts received more growth aid on a per pupil basis; in fact, in 1993-94 small districts received 153 percent more growth aid, in per pupil terms, than larger districts. This pattern of larger districts receiving more total funding but less funding per pupil for growth has been occurring since growth aid was first allocated and for almost all districts regardless of their pattern of growth.

While it is impossible to track growth funds in order to understand how they are used by districts, we felt that it was important to examine how the spending patterns of school districts had

changed to see if the availability of growth funds influenced the way districts spend their revenue. One hypothesis we had was that districts that have a real need for growth funds would use such funds to maintain existing pupil-teacher ratios — increasing ratios might indicate that growth funds were insufficient while decreasing ratios might indicate that growth funds were overcompensating for growth, allowing districts to improve the way they deliver services in ways not contemplated when growth funds were initiated.

The figures in Table 5 show average pupil-teacher ratios for several years for districts grouped by growth group and size. It should be noted that the years for which pupil-teacher ratio data are available (1989-90 through 1992-93) does not match the years for which the allocation of growth aid is available (1990-91 through 1993-94). Given the data that is available, it is difficult to find any pattern in the numbers when all four years of data are examined; in fact, looking only at the earliest year and the most recent year, it appears that pupil-teacher ratios have remained constant. However, when the earliest year is eliminated (which happens to be the year before growth funds became available) a number of patterns emerge. First, overall, between 1990-91 and 1992-93 the pupil teacher ratio has increased, with the median ratio of all districts rising from 16.5 to 17.1; the ratios appear to have increased to a greater extent among small districts although the ratios also increased among larger districts. Interestingly, the ratios increased for the fastest growing districts, regardless of size, and for larger districts with declining enrollment. Given that the growing districts received growth aid while the declining districts did not receive any aid, it is hard to draw the conclusion that state aid for growth influenced this outcome. The only group that had decreasing pupil-teacher ratios, the smaller districts in the "down-up" growth group, received relatively large amounts of growth aid on a per pupil basis but, clearly, not enough to pay for the cost of reducing pupil-teacher ratios by .8 pupils. Our conclusion is that the growth funds have little, if anything, to do with changes in the pupil-teacher ratios of school districts.

Another approach that can be used to evaluate the impact of growth funds is to examine the actual spending levels of school districts and how they have changed over time. This information is shown in Tables 6A (for larger districts) and 6B (for smaller districts). The figures in the tables indicate per pupil spending in five functional areas (direct instruction, instructional support, administration, plant operation and maintenance, and fixed costs) for the years 1988-89 and 1992-93 by growth group. For example, relatively large, fast growth districts spent \$1,429 per pupil on direct instruction in 1988-89; their spending in this area increased to \$1,618 per pupil in 1992-93, an increase of \$189 per pupil or 13.2 percent over four years.

Overall, without regard to growth pattern, larger districts increased their spending in all functional areas between 1988-89 and 1992-93, with the largest dollar increase in direct instruction and the largest percentage increase in instructional support. This pattern applies to fast growth districts, mixed growth districts, and districts that had declining enrollments (although administrative expenditures actually decreased in fast growth districts). In terms of direct instruction, "down-up" districts increased their pupil spending to the greatest extent while "mixed" districts increased their spending to the least extent. Fast growth districts increased their spending for an instructional support by much more than moderate growth districts. Expenditures for administration, plant operation and maintenance, and fixed costs increased the fastest in districts with a "down-up" pattern of growth although in 1992-93, districts that had declining enrollment had similar spending levels to those in the "down-up" group.

With some exceptions, what characterizes the changing spending pattern of relatively large districts is the consistency across districts with different growth patterns -- apparently, regardless of whether enrollments are growing, declining, or mixed over several years, the spending levels of larger districts remains fairly constant. This suggests that growth funds are not needed to compensate for the fiscal impacts of growth, at least in the major areas of spending.

The story appears to be somewhat different for smaller districts. For districts that were below the median in membership, the largest dollar increase in spending between 1988-89 and 1992-93 was in the area of administration while the largest percentage growth was in fixed costs. Districts with declining enrollments had large increases in spending for administration, plant operation and, maintenance, and fixed costs, while spending for instructional support decreased. Growing districts differed from declining ones by having slower increases in fixed costs and larger increases in instructional support -- but among growing districts, there were differences between fast growth and moderate growth districts. For smaller districts, the pattern of enrollment change seems to have a real impact on the pattern of spending although the relationship between enrollment change and spending pattern is not clear.

In the end, it is hard to determine what impact, if any, growth funds have had and what need, if any, there is for such funds to be provided. The level of growth funding has been so small in comparison to the spending levels of districts that it has not been sufficient to have an effect on the hiring practices of school districts, which is one of the most important factors in causing differences in spending across school districts. Too, it is not clear what role such funds might play in helping districts that may be forced to shift spending as enrollment levels change. It may be that growth funds need to be provided only under very specific circumstances, such as when school districts open new facilities (as shown by Kathy Provine's research in the Gadsden School District) because growth exceeds capacity. District enrollment level, the capacity to serve pupils comfortably, the pattern of growth over several years, and annual enrollment change are probably all linked together in determining a district's need for additional state support. While it is unclear what those relationships are, our conclusion is that growth funds do not serve any real purpose as they are allocated today and that, in the future, if growth funds are going to be provided, they should be targeted more carefully, taking into consideration characteristics of school districts other than year to year changes in enrollment.

Table 1

GENERAL CHARACTERISTICS OF THE DISTRIBUTION OF STATE AID FOR GROWTH, 1990-1991
THROUGH 1993-1994

	Year			
	<u>1990-1991</u>	<u>1991-1992</u>	<u>1992-1993</u>	<u>1993-1994</u>
Number of Dollars Distributed	\$3,124,418	\$6,929,394	\$6,230,112	\$5,840,882
Number of Receiving Districts	40	49	56	62
Percent of All Districts Receiving Growth Funds	45.5%	55.7%	63.6%	70.5%
Number of Pupils in Receiving Districts	224,719	215,675	240,648	233,820
Percent of All Students in Receiving Districts	77.4%	72.5%	79.2%	75.5%
Average Growth Dollars Per Pupil	\$10.76	\$23.29	\$20.50	\$18.85
Average Growth Dollars Per Pupil in Recipient Districts	\$13.90	\$32.13	\$25.89	\$24.98

Table 2

CHARACTERISTICS OF DISTRICTS ORGANIZED INTO GROWTH GROUPS BASED ON YEAR-TO-YEAR CHANGES IN
MEMBERSHIP BETWEEN 1986-1987 AND 1993-1994

<u>Growth Group</u>	<u>Number of Districts</u>	<u>1993-1994 Membership</u>	<u>Percent Membership Change 1989-1990 to 1993-1994</u>	<u>Median Membership</u>
Fast Growth	21	75,999	17.4%	1,823
Moderate Growth	13	163,216	7.4%	6,961
Down-up	11	20,847	5.9%	805
Mixed	30	39,496	2.1%	439
Declining	6	6,223	-8.1%	251
All Districts	88	309,867	8.8%	800

Note: Seven districts, with a 1993-1994 Membership of 4,056, were not placed into a growth group.

Table 3

**NUMBER OF DISTRICTS AND MEMBERSHIP IN DISTRICTS RECEIVING STATE AID FOR GROWTH,
BY GROWTH GROUP AND SIZE (ABOVE OR BELOW MEDIAN MEMBERSHIP),
BETWEEN 1990-1991 AND 1993-1994**

GROWTH GROUP	Year							
	1990-1991		1991-1992		1992-1993		1993-1994	
	Dist.	Memb.	Dist.	Memb.	Dist.	Memb.	Dist.	Memb.
<u>Fast Growth</u>								
Above Median Size	12	61,085	14	66,127	15	69,987	13	62,283
Below Median Size	3	1,345	5	1,904	5	2,020	4	1,867
<u>Moderate Growth</u>								
Above Median Size	8	147,550	7	120,973	7	129,082	7	126,949
Below Median Size	2	995	2	1,026	2	1,198	3	1,810
<u>Down-Up</u>								
Above Median Size	2	3,706	2	4,546	6	17,769	6	17,783
Below Median Size	0	0	1	656	5	2,911	5	3,064
<u>Mixed</u>								
Above Median Size	2	6,544	4	14,757	4	11,872	3	11,319
Below Median Size	7	1,624	8	2,255	7	3,556	14	4,660
<u>Declining</u>								
Above Median Size	0	0	0	0	0	0	0	0
Below Median Size	0	0	1	179	0	0	0	0
<u>All Districts</u>								
Above Median Size	25	219,944	29	208,827	33	229,762	31	221,120
Below Median Size	15	4,776	20	6,847	23	10,885	3	12,700

Table 4

**TOTAL STATE AID FOR GROWTH AND STATE AID PER PUPIL RECEIVED BY ELIGIBLE DISTRICTS,
BY GROWTH GROUP AND SIZE (ABOVE AND BELOW MEDIAN MEMBERSHIP)
BETWEEN 1990-91 AND 1993-94**

GROWTH GROUP	1990-1991		1991-1992		1992-1993		1993-1994	
	Total	Per Pupil	Total	Per Pupil	Total	Per Pupil	Total	Per Pupil
<u>Fast Growth</u>								
Above Median Size	\$1,145,314	\$18.75	\$2,932,886	\$44.35	\$2,830,893	\$40.45	\$2,256,396	\$36.23
Below Median Size	24,724	18.38	110,561	58.07	108,342	53.63	133,099	71.29
<u>Moderate Growth</u>								
Above Median Size	\$1,418,927	\$9.62	\$2,865,710	\$23.69	\$2,091,648	\$16.20	\$2,000,846	\$15.76
Below Median Size	31,082	31.24	28,457	27.74	49,968	41.70	91,476	50.54
<u>Down-Up</u>								
Above Median Size	\$79,823	\$21.54	\$115,692	\$25.45	\$438,504	\$25.25	\$400,750	\$22.54
Below Median Size	0	0	23,325	35.56	128,889	44.28	148,103	48.34
<u>Mixed</u>								
Above Median Size	\$81,707	\$12.49	\$359,205	\$24.34	\$213,881	\$18.02	\$183,435	\$16.21
Below Median Size	54,864	33.78	101,697	45.10	120,950	34.01	319,438	68.55
<u>Declining</u>								
Above Median Size	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Below Median Size	0	0	8,397	46.91	0	0	0	0
<u>All Districts</u>								
Above Median Size	\$2,989,495	\$13.59	\$6,579,984	\$31.51	\$5,657,583	\$24.62	\$5,100,366	\$23.07
Below Median Size	134,923	28.26	349,410	51.03	572,529	52.60	740,516	58.31

Table 5

**MEDIAN PUPIL-TEACHER RATIO FOR DISTRICTS ORGANIZED BY GROWTH GROUP AND SIZE
(ABOVE OR BELOW MEDIAN MEMBERSHIP LEVEL)
FOR 1989-1990 THROUGH 1992-1993**

<u>GROWTH GROUP</u>	<u>Year</u>			
	<u>1989-1990</u>	<u>1990-1991</u>	<u>1991-1992</u>	<u>1992-1993</u>
<u>Fast Growth</u>				
Above Median Size	19.0	18.5	18.6	18.6
Below Median Size	14.9	14.3	15.7	15.9
<u>Moderate Growth</u>				
Above Median Size	18.8	18.8	18.7	18.9
Below Median Size	15.4	15.7	14.9	15.5
<u>Down-Up</u>				
Above Median Size	18.8	18.3	18.7	18.5
Below Median Size	16.5	16.3	16.0	15.5
<u>Mixed</u>				
Above Median Size	18.9	18.4	18.4	18.7
Below Median Size	13.7	13.5	13.9	14.1
<u>Declining</u>				
Above Median Size	18.6	18.3	18.3	18.8
Below Median Size	12.3	12.9	13.6	12.1
<u>All Districts</u>				
Above Median Size	18.8	18.4	18.5	18.7
Below Median Size	14.8	13.9	14.5	14.8
All Districts	16.9	16.5	16.6	17.1

Table 6A
MEDIAN PER PUPIL SPENDING BY FUNCTION IN 1988-1989 AND 1992-1993
FOR DISTRICTS WITH HIGHER THAN MEDIAN MEMBERSHIP
ORGANIZED BY GROWTH GROUP

		Spending Function			
<u>Direct</u>		<u>Instructional</u>		<u>Operations &</u>	<u>Fixed</u>
<u>GROWTH GROUP</u>	<u>Instruction</u>	<u>Support</u>	<u>Administration</u>	<u>Maintenance</u>	<u>Cost</u>
<u>Fast Growth</u>					
1988-1989	\$1,429	\$347	\$116	\$321	\$476
1992-1993	1,618	463	113	334	559
\$Change	189	116	-3	13	83
%Change	13.2%	33.4%	-2.6%	4.1%	17.4%
<u>Moderate Growth</u>					
1988-1989	\$1,432	\$353	\$78	\$351	\$441
1992-1993	1,594	402	89	351	550
\$ Change	162	49	11	0	109
% Change	11.3%	13.9%	14.1%	0	24.7%
<u>Down-Up</u>					
1988-1989	\$1,436	\$381	\$100	\$346	\$460
1992-1993	1,661	446	141	393	594
\$ Change	265	65	41	47	134
% Change	15.7%	17.1%	41.0%	13.6%	29.1%
<u>Mixed</u>					
1988-1989	\$1,466	\$386	\$124	\$334	\$502
1992-1993	1,551	446	129	339	571
\$ Change	85	60	5	5	69
% Change	5.8%	15.6%	4.0%	1.5%	

Table 6B
**MEDIAN PER PUPIL SPENDING BY FUNCTION IN 1988-1989 AND 1992-1993 FOR DISTRICTS WITH LOWER THAN MEDIAN
 MEMBERSHIP
 ORGANIZED BY GROWTH GROUP**

	Spending Function				
<u>GROWTH GROUP</u>	<u>Direct Instruction</u>	<u>Instructional Support</u>	<u>Administration</u>	<u>Operations & Maintenance</u>	<u>Fixed Cost</u>
<u>Fast Growth</u>					
1988-1989	\$1,819	\$401	\$266	\$439	\$576
1992-1993	1,964	483	277	426	675
\$Change	145	82	11	-13	99
%Change	8.0%	20.5%	4.1%	-3.0%	17.2%
<u>Moderate Growth</u>					
1988-1989	\$1,700	\$472	\$221	\$336	\$635
1992-1993	2,030	502	212	486	731
\$ Change	330	170	-9	150	96
% Change	19.4%	6.4%	-4.1%	44.7%	15.1%
<u>Down-Up</u>					
1988-1989	\$1,772	\$520	\$210	\$474	\$661
1992-1993	2,003	687	219	526	73
\$ Change	231	167	9	52	73
% Change	13.0%	32.1%	4.3%	11.0%	11.1%
<u>Mixed</u>					
1988-1989	\$1,962	\$471	\$328	\$486	\$756
1992-1993	2,180	530	358	528	846
\$ Change	218	59	30	42	90
% Change	11.1%	12.5%	9.2%	8.7%	11.9%

Enrollment Growth Factors in State School Finance Formulas:
A Review of the Research and Policy Recommendations

An enrollment growth factor usually refers to some type of weighting in a state's basic aid formula to reflect the higher operating costs¹ associated with increased student enrollment in a school district. Enrollment growth factors seem to be premised upon the notion that school districts incur costs with each new student that are not covered regular state aid formulas. However, there is no research that directly addressed the question of the fiscal impact of enrollment growth. Therefore, there are no research findings, to either support or refute the assumption upon which enrollment growth factors are based.

A substantial body of research dating to the late 1960s does exist on the concept of economies of scale in education.¹ The concept of economies of scale is based in the assumption that there is a class, school, or district size that is optimal for efficient use of resources.² Two subcategories within economies of scale research are rural sparsity and municipal overburden. Rural sparsity studies have attempted to document increased costs for rural school districts with relatively small enrollments spread over a large geographic area.³ On the other hand, municipal overburden research has tried to establish that the high concentration of students with special needs and/or living in poverty in urban school districts raises the cost of education. In addition municipal overburden studies point to the generally higher cost of goods and services in urban areas. In general, the results of research on economies of scale are inconclusive and even conflicting.⁴ Further, while one might argue intuitively for higher educational costs associated with sparsity and overburden,⁵ a solid body of research to support it does not exist.

In addition to rural sparsity and municipal overburden a number of economies of scale studies since the early 1970s have focused on declining enrollments.⁶ These studies have tried to establish a systematic relationship between declining enrollment and educational costs. Their

results too have been inconsistent. As such, they offer little insight to states experiencing significant enrollment growth. Finally, a more recent trend is the attempt to relate school size to outcomes, such as student performance on academic measures.⁷

An important gap in the research is the relationship of enrollment growth to capital construction costs.⁸ While school districts generally receive a set amount of dollars for each pupil/unit per year for operating costs through state basic and categorical aid, they do not receive a yearly appropriation for capital costs. In states where school districts are experiencing rapid enrollment growth, the adequacy of facilities and the ability of the local school district to bear additional capital construction costs are important policy issues.⁹ Generally capital outlay expenditures represent a very small percentage of state aid across states, ranging from zero in Arkansas, Idaho, Iowa, Kansas, Louisiana, Missouri, Montana, Nevada, North Dakota, and Virginia to 11.2% in California.¹⁰ Most states require substantial local support for capital construction with the ability to support capital construction costs based primarily on assessed value of real property in school districts. Twelve states incorporate some equalization provision in their distribution of capital funds although they may equalize only a portion of the total cost of the construction project.¹¹ In those states without fully equalized state support, property-poor school districts with growing enrollments may face significant fiscal hardship if their school buildings are at capacity enrollment.¹²

In conclusion, little research exists to guide policymakers in deciding the appropriate mechanisms for funding school districts with rapidly growing enrollments. In particular, there is no research to support or refute higher operating costs for such school districts. On the other hand, it is obvious that school districts with inadequate facilities must engage in capital construction to accommodate increasing enrollments. State policymakers may want to undertake case studies of school districts experiencing significant increases in student enrollment to determine if there is

justification for an enrollment growth factor per se. Secondly, policymakers will also want to analyze the adequacy, equity, and efficiency of state funding of capital construction.¹³

Endnotes

1. Operating costs refer to costs such as salaries and benefits, routine maintenance and operations, supplies and equipment. Excluded are capital costs, for example, building and construction, renovation, major repairs, and major equipment such as school buses.
2. For an excellent review of early economies of scale studies in education, see James Fox, "Reviewing Economies of Size in Education," Journal of Education Finance 6 (1981): 273-296.
3. For a discussion of the origins of the theory underlying the concept of economies of scale, see Lila J. Truett and Dale B. Truett, "Regions of the Production Function, Returns, and Economies of Scale: Further Considerations," Journal of Economic Education 21 (Fall 1990): 411-419; and Elchanan Cohn, "Returns to Scale and Economies of Scale Revisited," Journal of Economic Education 23 (Spring 1992): 123-124.
4. See, for example, Gerald R. Bass, "Isolation/Sparsity," Journal of Education Finance 16 (Fall 1990): 180-191; and Deborah A. Verstegen, "Efficiency and Economics of Scale Revisited: Implications for Financing Rural School Districts," Journal of Education Finance 16 (Fall 1990): 159-179.
5. For example, some researchers have argued that the small school and class size of rural districts is unavoidable, therefore the relatively higher per pupil expenditures is unavoidable, and these school districts need additional state aid. See Roe, L. Johns, "An Index to Extra Costs of Education due to Sparsity of Population," Journal of Education Finance 1 (Fall 1975): 159-204. Others have argued that such school districts should be consolidated to increase economy of scale, and the state role is to provide incentives for consolidation. See Elchanan Cohn, "A Proposal for School Size Incentives in State Aid to Education," Journal of Education Finance 1 (Fall 1975): 216-225.
6. Clearly transportation costs are higher for rural districts than for other types of districts, but this may be offset by a generally lower cost for some goods and services, for example, wages and salaries. On the other hand, while the costs of some goods and services may be higher in urban areas, some are actually lower because of increased competition among a larger number of vendors.
7. For an early example see Robert J. Goettel and Robert E. Firestone, "Declining Enrollments and State Aid: Another Equity and Efficiency Problem," Journal of Education Finance 1: (Fall 1975) 205-215. For a more recent example, see Mark A. Edelman and James J. Knudsen, "An Analysis of Average and Marginal Cost of Iowa School Districts," Des Moines, IA: Interim School Finance Study Committee of the Iowa Legislature, November 1988).
8. For a summary of recent studies, see John A. Thompson, "Scale Economies and Student Performance in Hawaii," Journal of Education Finance, 19 (Winter 1994): 279-291.
9. Capital construction costs here refer to costs of new construction, major remodeling, additions, and equipment associated with these. In addition it refers to retrofitting and major repairs that do not fall under routine maintenance.

10. See David S. Honeyman, "School Facilities and State Mechanisms that Support School Construction: A Report from the Fifty States," Journal of Education Finance 16 (Fall 1990): 247-272.

11. Public School Finance Programs of the United States and Canada, 1990-1991, Vol. 1, (Albany, NY: American Education Finance Association and Center for the Study of the States, 1992) Table 9, pp. 43-47.

12. Those states with some equalization provision for capital construction are as follows: Connecticut, Delaware, Georgia, Maryland, Massachusetts, Minnesota, New Mexico, New York, Pennsylvania, Rhode Island, Utah, and Washington. (Public School Finance Programs, Table 9).

13. Capacity utilization is an important variable in this discussion. Yet even in the existing research on economies of scale it is rarely taken into consideration. An important exception is the following: John Riew, "Scale Economies, Capacity Utilization, and School Cost: A Comparative Analysis of Secondary and Elementary Schools," Journal of Education Finance 11 (Spring 1986): 433-440.

14. Efficiency here refers to the notion of ease of administration and compliance. School districts experiencing rapid enrollment growth need to be able to access state funds and undertake construction in a timely manner.

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Public Elementary and Secondary Enrollment

Public elementary and secondary school enrollment is projected to rise steadily between 1990 and the year 2002, but these increases will vary widely across the nation. Enrollment will increase most rapidly in the Northeastern and Western regions, where public school enrollment is expected to rise 22 percent and 18 percent, respectively. An increase of 15 percent is projected for the Southern region, while a smaller increase of 7 percent is expected in the Midwestern region. The greatest growth will occur at the secondary level.

Public school enrollment in kindergarten through grade 8 is expected to grow nearly 1 percent annually between 1990 and 2002, resulting in an increase of about 12 percent for the entire period. All of the regions of the country are expected to show increases, ranging from 17 percent in the Northwestern region to about 5 percent in the Midwestern region. Elementary enrollment is projected to grow by 14 percent in the West and by 13 percent in the South. Enrollment increases are expected for most states; 15 states are expected to have elementary enrollment decreases between 1990 and 2002.

While public high school enrollment (grades 9 through 12) declined during the later half of the 1980s, it is expected to show sizable increases between 1990 and 2002. This expected increase reflects the changes in the high school age group that will occur during the 1990s, rather than shifts in the graduation rate from public high schools. During the 1990s and beyond, the high school enrollment decreases of the 1980s are expected to reverse as larger numbers of students enter the high school grades, but changes in the regions of the country are expected to differ. High school enrollment in the Northeast is expected to rise by 33 percent between 1990 and 2002, while enrollment in the West will rise by 29 percent. Lower increases in public high school enrollment

are projected for the South and Midwest between 1990 and 2002, 21 percent and 11 percent, respectively.

Many states in the Western region are expected to have relatively large increases in enrollment. Overall, enrollment in the Western states is expected to rise by nearly 1.7 million students between 1990 and 2002. Much of this increase will be in California, which will strongly affect the region's trend because of its size. Enrollment in California is expected to rise about 1.2 million or 24 percent between 1990 and 2002. Large increases are also expected in Alaska (30 percent), Arizona (35 percent), Hawaii (47 percent), and New Mexico (35 percent) over the projection period. Decreases are expected in Idaho (7 percent), Montana (9 percent), Oregon (1 percent), and Wyoming (15 percent). Of the states in which enrollment is projected to increase between 1990 and 2002, most of the states will experience their fastest growth during the 1990-1996 time period and then increase at a slower rate or decline during the 1996-2002 time period (figures 65 and 66).

Elementary Enrollment

These expected increases in elementary enrollment are a reflection of immigration and the rising number of births beginning in 1977 rather than changes in the attendance rates of young children. The NCES projections do not account for enrollment increases that may be caused by changing state and local policies about the provision of prekindergarten and kindergarten programs. Expansion of these programs would lead to higher enrollments at the elementary school level.

Elementary enrollment (K-8) in the Western states is expected to rise between 1990 and 2002, an increase of 14 percent. This amounts to an increase of about 1 million students, more than four-fifths of which will be in California. Over the projection period, particularly large

enrollment increases are anticipated for Alaska (22 percent), Arizona (23 percent), California (21 percent), Hawaii (27 percent) , and New Mexico (18 percent). In contrast to the rest of the region, significant enrollment decreases are anticipated for Montana (14 percent) and Wyoming (19 percent). Most of the states will experience their greatest growth between 1990 and 1996.

High School Enrollment

The Western region's high school enrollment is expected to rise about 724,000 between 1990 and 2002. Most of the increase (23 percent) is expected to occur between 1990 and 1996. This marks a significant increase over the 1-percent growth that occurred between 1984 and 1990. Between 1990 and 2002, particularly large increases have been projected for Alaska (50 percent), Arizona (83 percent), California (30 percent), Colorado (28 percent), Hawaii (102 percent), and New Mexico (75 percent). Idaho, Oregon, and Wyoming are the only states in the region for which a decline has been projected. Most of the states in the West will experience their greatest growth between 1990 and 1996.

Source: "Projections of Education Statistics to 2002."
National Center for Education Statistic U.S. Department of Education
Office of Educational Research and Improvement

Figure 57

Enrollment in grades K-12 in public schools, by region,
with projections: Fall 1982 to fall 2002

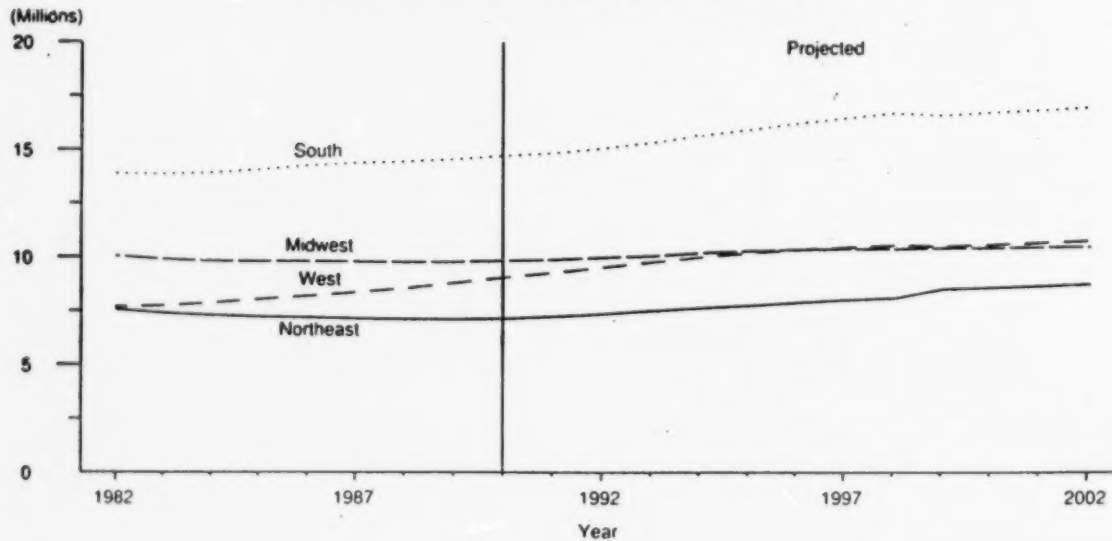


Figure 58

Percent change in grades K-12 enrollment in public schools, by state:
Fall 1990 to fall 2002

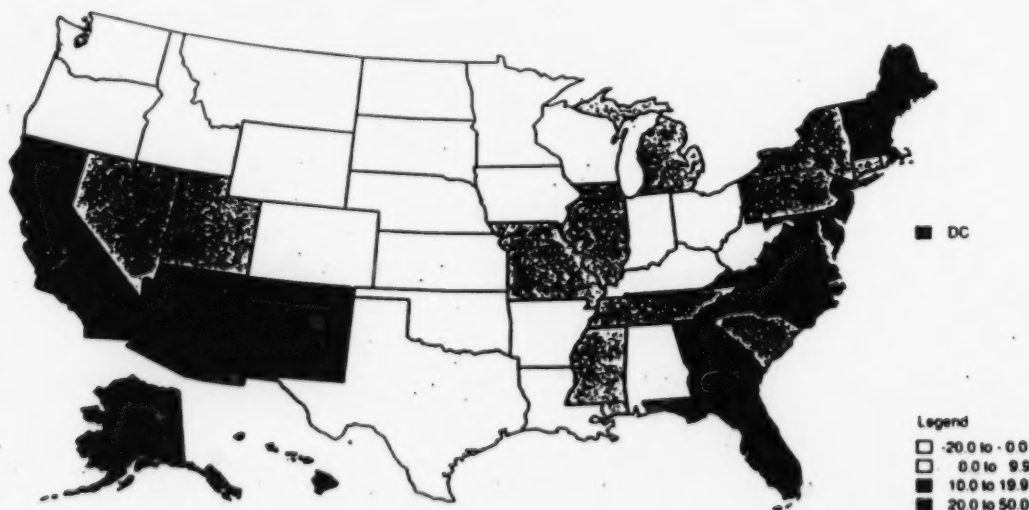


Figure 65
Percent change in public K-12 enrollment,
by state: West, 1990 to 1996

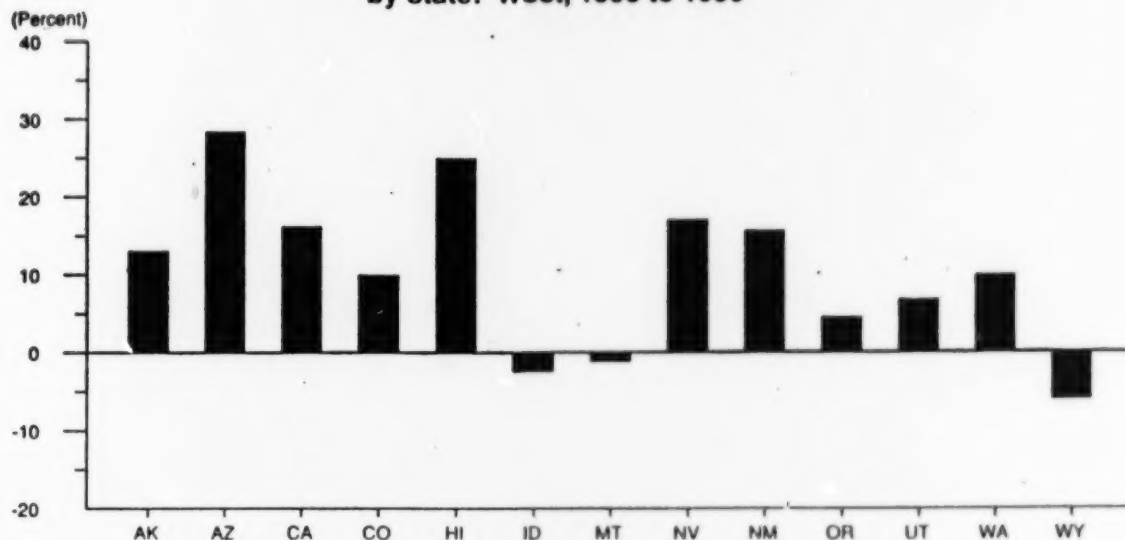


Figure 66
Percent change in public K-12 enrollment,
by state: West, 1996 to 2002

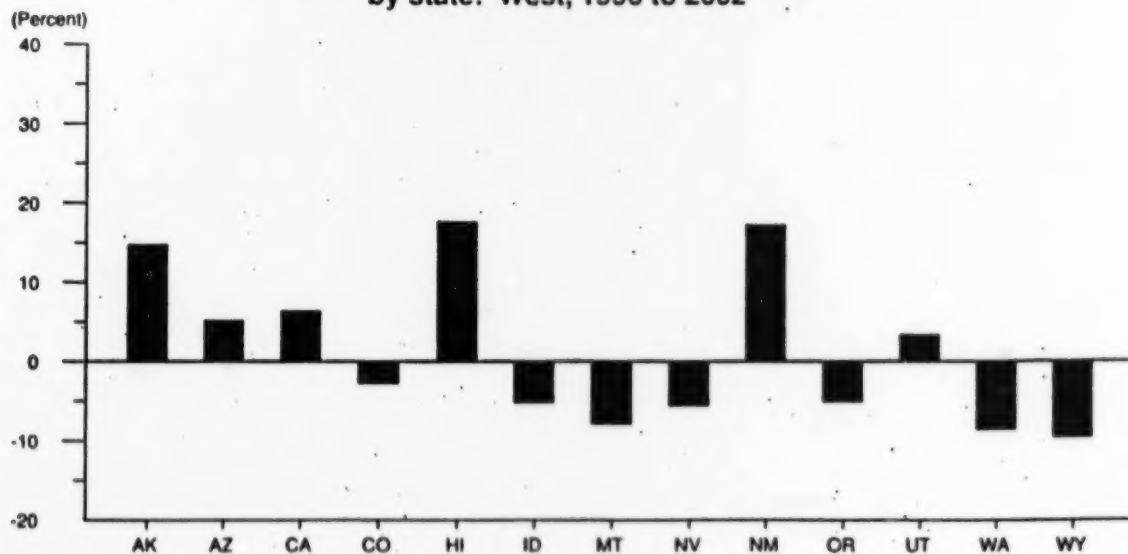


Table 37.—Enrollment in grades K-12 in public elementary and secondary schools, by region and state, with projections: Fall 1984 to fall 2002

(In thousands)

Region and state	Actual						Estimate	Projected		
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
United States	39,208	39,422	39,753	40,008	40,189	40,526	41,026	41,575	42,250	42,971
Northeast	7,396	7,317	7,295	7,252	7,208	7,202	7,233	7,339	7,461	7,608
Connecticut	468	462	469	465	461	462	469	477	488	500
Maine	208	206	212	212	213	214	216	218	220	226
Massachusetts	859	844	834	825	823	826	829	846	863	885
New Hampshire	159	161	164	166	169	172	171	181	189	197
New Jersey	1,129	1,116	1,107	1,093	1,081	1,076	1,083	1,101	1,126	1,161
New York	2,646	2,621	2,608	2,594	2,574	2,566	2,563	2,599	2,633	2,674
Pennsylvania	1,702	1,683	1,674	1,669	1,660	1,655	1,668	1,680	1,701	1,721
Rhode Island	135	134	135	135	134	136	138	139	142	145
Vermont	90	90	92	93	93	95	96	97	99	100
Midwest	9,889	9,861	9,871	9,868	9,847	9,851	9,899	9,973	10,055	10,133
Illinois	1,834	1,826	1,825	1,811	1,795	1,797	1,803	1,811	1,826	1,849
Indiana	973	966	967	964	961	954	956	962	968	970
Iowa	491	485	481	481	478	478	484	477	475	471
Kansas	405	410	416	421	427	431	436	442	448	452
Michigan	1,649	1,603	1,597	1,589	1,583	1,577	1,577	1,589	1,601	1,615
Minnesota	702	705	711	721	727	740	752	767	779	789
Missouri	794	795	801	802	807	808	810	826	838	850
Nebraska	266	266	267	268	269	271	274	274	275	274
North Dakota	119	119	119	119	119	118	117	117	117	117
Ohio	1,805	1,794	1,794	1,793	1,779	1,767	1,770	1,775	1,787	1,798
South Dakota	123	124	125	127	127	127	129	131	132	133
Wisconsin	768	768	768	772	775	783	791	802	810	814
South	13,963	14,117	14,312	14,419	14,492	14,589	14,761	14,889	15,117	15,379
Alabama	713	730	734	729	725	723	728	726	730	735
Arkansas	433	433	437	437	436	435	435	438	441	443
Delaware	92	93	94	96	97	98	100	102	106	108
District of Columbia	87	87	86	86	85	81	80	81	81	84
Florida	1,524	1,562	1,607	1,665	1,721	1,772	1,862	1,894	1,967	2,049
Georgia	1,062	1,080	1,096	1,111	1,108	1,127	1,152	1,179	1,208	1,239
Kentucky	644	644	643	643	638	631	630	623	621	618
Louisiana	801	788	795	793	787	783	779	767	766	770
Maryland	674	672	676	684	689	699	715	739	766	797
Mississippi	466	471	499	506	503	502	500	496	497	498
North Carolina	1,089	1,086	1,085	1,086	1,083	1,081	1,083	1,099	1,121	1,150
Oklahoma	590	592	593	584	580	579	579	574	572	570
South Carolina	603	607	612	615	616	616	622	628	636	645
Tennessee	817	814	818	824	822	820	822	827	835	845
Texas	3,040	3,132	3,210	3,237	3,284	3,329	3,353	3,379	3,408	3,433
Virginia	965	968	975	979	982	985	998	1,025	1,056	1,095
West Virginia	363	358	352	344	336	328	323	313	306	300
West	7,960	8,126	8,275	8,465	8,643	8,886	9,135	9,374	9,617	9,851
Alaska	105	107	108	106	106	109	112	111	114	116
Arizona	530	548	535	572	575	608	590	660	685	709
California	4,151	4,256	4,378	4,489	4,618	4,772	4,963	5,101	5,260	5,415
Colorado	545	551	558	560	560	563	569	576	586	596
Hawaii	164	164	165	166	167	169	171	176	182	190
Idaho	208	209	208	212	215	215	221	215	214	213
Montana	154	154	153	152	152	151	152	151	150	150
Nevada	152	155	161	168	176	187	197	206	214	221
New Mexico	272	278	282	287	292	296	300	305	311	318
Oregon	447	448	449	456	462	472	485	482	488	491
Utah	390	403	416	423	431	437	445	445	449	451
Washington	741	750	761	776	791	810	832	852	872	889
Wyoming	101	103	101	98	98	97	98	94	93	91

Table 38—Percent change in grades K–12 enrollment in public schools, by region and state, with projections: Fall 1984 to fall 2002

Region and state	Actual	Projected		
	1984 to 1990	1990 to 1996	1996 to 2002	1990 to 2002
United States	4.6	9.9	4.4	14.7
Northeast	-2.2	10.4	10.1	21.5
Connecticut	0.2	11.7	5.5	17.8
Maine	3.8	12.8	9.3	23.3
Massachusetts	-3.5	13.5	6.3	20.6
New Hampshire	7.5	28.0	13.8	45.7
New Jersey	-4.1	17.1	19.5	40.0
New York	-3.1	7.5	11.0	19.3
Pennsylvania	-2.0	6.4	5.5	12.3
Rhode Island	3.0	9.0	5.9	15.4
Vermont	6.7	11.3	8.5	20.7
Midwest	0.1	5.4	1.0	6.5
Illinois	-1.7	8.3	10.3	19.4
Indiana	-1.7	3.5	0.0	3.5
Iowa	-1.4	-4.4	-7.7	-11.8
Kansas	7.7	6.1	-2.6	3.3
Michigan	-2.0	4.8	5.9	11.0
Minnesota	7.1	8.3	-5.0	2.8
Missouri	2.0	11.4	3.1	14.9
Nebraska	3.0	1.4	-9.2	-7.9
North Dakota	-1.7	1.7	-11.7	-10.2
Ohio	-1.9	4.2	-2.6	1.5
South Dakota	4.9	9.3	-0.2	9.1
Wisconsin	3.0	3.3	-5.9	-2.8
South	5.7	10.0	4.4	14.9
Alabama	2.1	5.0	1.9	7.0
Arkansas	0.5	5.4	-0.3	5.1
Delaware	8.7	17.2	10.0	28.9
District of Columbia	-8.0	10.2	13.0	24.5
Florida	22.2	20.4	9.7	32.1
Georgia	8.5	16.0	9.5	27.1
Kentucky	-2.2	-1.4	-1.0	-2.4
Louisiana	-2.7	2.9	3.3	6.4
Maryland	6.1	22.4	13.0	38.3
Mississippi	7.3	3.5	6.3	10.0
North Carolina	-0.6	16.2	13.6	32.0
Oklahoma	-1.9	-3.3	-14.1	-17.0
South Carolina	3.2	9.2	3.3	12.8
Tennessee	0.6	7.7	4.8	12.9
Texas	10.3	4.8	-5.6	-1.1
Virginia	3.4	23.1	17.3	44.4
West Virginia	-11.0	-9.1	-3.0	-11.8
West	14.8	14.0	3.6	18.1
Alaska	6.7	13.0	14.7	29.6
Arizona	11.3	28.3	5.1	34.9
California	19.6	16.1	6.3	23.5
Colorado	4.4	9.9	-2.7	7.0
Hawaii	4.3	24.9	17.6	46.9
Idaho	6.3	-2.4	-5.1	-7.4
Montana	-1.3	-1.1	-7.8	-8.8
Nevada	29.6	16.9	-5.5	10.5
New Mexico	10.3	15.5	17.2	35.4
Oregon	8.5	4.4	-5.0	-0.9
Utah	14.1	6.7	3.3	10.2
Washington	12.3	9.8	-8.5	0.5
Wyoming	-3.0	-6.0	-9.5	-14.9

NOTE: Includes most kindergarten and some nursery school enrollment.

SOURCE: US Department of Education, National Center for Education Statistics, Common Core of Data surveys and "Key Statistics for Public and Private Elementary and Secondary Education: School Year 1990-91," *Early Estimates*. (This table was prepared June 1991)

<u>State</u>	<u>Procedure for Adjustment</u>	<u># of Districts Affected</u> <u>FY 94</u>	<u>Staff Contacts</u>
Missouri	Procedure by which school districts can estimate the number of eligible pupils. "Eligible Pupils" are the unit on which the state pays state aid to local school districts. SD's can estimate for the coming school year. Reconciliation is an over/under recalculation. School finance formula was changed in 1992. Statutory Cite: 163.036	225/535	Brian Long House Research Staff (314) 751-2979
Wyoming	Student enrollment is based on "classroom units." The formula gives greater weights to small rural districts. ADM is determined by the first 60 days of each term. Adjust for changes from year to year. Second recalculation in February. Statutory Cite: 1-13-311(b) for enrollment up to 10%. Statutory Cite: 21-73-308(f) for 15% or more enrollment growth.	33/49	Dave Nelson House/Senate Education Staff (307) 777-7881
Arizona	Adjustment for "sudden growth." Districts can adjust by 40 th or 100 th day counts. Question is what is the percentage increase from the 100 th day to the 100 th day last year. The adjustment is a two tiered approach. If growth is between 3%-5% the budget capacity is increased by the number of students times 1/3 of the student base cost. 5% or greater growth equals the number of students times the full base cost. In 1992 150/225 school districts received increased budget capacity. The adjustment for sudden growth was funded at 64% in 1991, 75% in 1992, and 100% in 1993-94.	161/223	Gene Gardner Director of School Finance State Department of Education (602) 542-3652
Oklahoma	Formula has a midterm adjustment. Steps in determining the adjustment: 1. use actual enrollment at end of previous year. 2. take head count on September 15 th . 3. difference between the two is the midterm adjustment. Districts are required to have at least two and a half percent growth. Title 70-18-200. 529 school districts.	214/554	Amanda Paliotta Senate Fiscal Staff Office (405) 521-5692

<u>State</u>	<u>Procedure for Adjustment</u>	<u># of Districts Affected FY 94</u>	<u>Staff Contacts</u>
Georgia	Legislature makes appropriation between January and March. Midterm adjustment uses actual count. School system earns more money proportionally. There is a provision in the law so that no school district can lose money as a result of the decline. In 1994, the legislature adopted legislation for the state to take rapid growth into account for capitol outlay program. (new entitlement program which is not currently funded) Title 20-2-162.	137/181	Jeffrey Williams Research Director Consortium for Education Research University of Georgia (706) 542-4626
New Jersey	Statutory formula not followed the last two years due to ongoing school finance litigation. Aid distribution driven from pupil count of previous September.	not applicable	David Rosen Section Chief Revenue, Finance & Appropriation New Jersey Assembly (609) 984-6798
North Carolina	Statue requires the Department of Public Instruction to forecast ADM. The state board submits the continuation budget for the upcoming biennium. Forecast gets built into the base budget. 80% of budget is based on position allocations per the statewide salary schedule. State guarantees dollars to fund position allocation. Spring adjustment period allows a review of salaries determined by the budget office and a recalibration of the budget to December payroll costs. Adjust net up or down. 2 nd year of biennium: adjust to new payroll data and fine tune 2 nd . year forecast. "Extraordinary adjustment" -usually confined to military installations, if growth is over projection after 10 th day of school year positions are added.	60/121	Jim Barber Assistant Superintendent Financial Services N.C. Department of Education (919) 715-1371

<u>State</u>	<u>Procedure for Adjustment</u>	<u># of Districts Affected</u> <u>FY 94</u>	<u>Staff Contacts</u>
Virginia	Enrollment driven by fall membership count. State operates under a biennial budgeting system. State sends money to school districts on a bi-monthly increment. Thus, the state makes 24 equal installments at the middle and end of each month. for those districts that experience growth between the count and March 31st, they are allowed to estimate their enrollment based on an average ADM for the first nine months of the school year. Fiscal adjustments are then made according to the estimates. The state constitution requires a balanced budget, so if there are statewide increases in enrollment, this would require proration to local school district budgets. Citation: 1994 Virginia Acts of Assembly, Chapter 966.	/137	Carol Cook Legislative Fiscal Office (804) 786-1837
Colorado	If a district's count taken during October of the current year exceeds the prior year funded pupil count by the lesser of 3% or 350 pupils, then the district receives additional funding for each pupil of increase over this threshold amount. The aid is equal to two-thirds of a specified fraction of the formula per-pupil funding most districts amounts to about 80% of their formula per-pupil funding.	80/176	Deborah Godshall Legislative Council (303) 866-3521
Florida	A policy was in place for two years in late 1980s and early 1990s that provided additional dollars to high growth districts. The policy was discontinued because of the economic recession, an attempt to simplify the funding formula and the implementation of Blueprint 2000 which includes more local initiative and fewer state level policies.	not applicable	Michael O'Farrell Staff Director Senate Committee on Education (904) 487-5213

<u>State</u>	<u>Procedure for Adjustment</u>	<u># of Districts Affected</u> FY 94	<u>Staff Contacts</u>
Idaho	School finance formula includes an emergency levy to address high enrollment growth. -school boards can levy additional property taxes without voter approval if enrollment exceeds the previous year 31 out of 113 districts participated last year.	31/113	Gordon Fisher Budget Analyst Legislative Budget Office (208) 334-3531
Iowa	Allows school district to appeal to the School Budget Review Committee to grant additional property taxes	19/425	Jon Studer Legislative Analyst Legislative Research Bureau (515) 281-5129
New York	Provision compares first semester enrollment of current year to prior year and adjustments are made to the June payment. In FY 93 - 62 districts (10%) received growth factor adjustment.	62/718	Lois Wilson Director Senate Education Committee (518) 455-2631
Washington	The policy is geared toward migrant students who are mobile throughout the school year. Washington uses 9 current year enrollment counts to allocate state dollars to districts. If a district experiences higher growth during the year, an additional 10% a month is allocated.	3/296	Janet Peterson Fiscal Analyst House Ways & Means Committee (206) 786-7136